

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 ISO-00 CIAE-00 COME-00 DODE-00

DOT-00 FMC-01 INR-07 NSAE-00 SAL-01 CG-00 DLOS-06

OES-06 ERDA-05 AID-05 CEA-01 CIEP-01 FEAE-00 FPC-01

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TO SECSTATE WASHDC PRIORITY 4735

INFO AMEMBASSY BONN PRIORITY

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

C O N F I D E N T I A L LONDON 13123

E.O. 11652: GDS

TAGS: EGEN, ENRG, EWWT

SUBJECT: EFFECT OF EXCESS TANKER CAPACITY

REF: STATE 198513

SUMMARY: UK GOVERNMENT DOES NOT APPEAR TO HAVE ANY EXTRA-ORDINARY MEASURES IN MIND TO DEAL WITH EXCESS TANKER CAPACITY PROBLEM EITHER FOR SHIPYARDS OR SHIPPING FIRMS.

IT CONTINUES TO PROVIDE FINANCING GUARANTEES FOR SHIPS INCLUDING TANKERS TO BE BUILT IN BRITISH YARDS, BUT IT HAS SEVERAL LARGE TANKERS ON ITS HANDS AND FACES A POTENTIAL LOSS OF 10 MILLION POUNDS IN ONE CASE SO THAT ANY DRAMATIC EXPANSION OF SUCH FINANCING FOR TANKER CONSTRUCTION IS UNLIKELY. ON THE SHIPPING SIDE, THE UK

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SUPPORTS OECD DISCUSSIONS OF THE PROBLEM, BUT BASICALLY

CONSIDERS THAT THE USUAL COMMERCIAL FORCES SHOULD DEAL WITH IT. UK ALSO IS LOOKING TO THE INTERNATIONAL MARITIME INDUSTRY FORUM (IMIF) TO PURSUE POSSIBILITIES OF REMEDIAL ACTION, BUT POSSIBILITIES OF SUCH ACTION APPEAR TO RUN COUNTER TO US ANTI-TRUST LAWS. END SUMMARY.

1. A FEW SALES OF TANKERS OVER THE LAST SEVERAL WEEKS BRIEFLY ENLIVENED AN OTHERWISE DORMANT TANKER SECTOR, BUT NEITHER TANKER SALES TO ARAB COMPANIES NOR FOR SCRAPPING SUPPORT ANY OPTIMISM ON A NEAR-TERM ALLEVIATION OF THE EXCESS TANKER CAPACITY PROBLEM. UK SHIPYARDS HAVE BEEN SERIOUSLY AFFECTED BY THE DECREASE IN ORDERS, BUT THEIR PROBLEMS EXTEND BEYOND THE TANKER PROBLEM TO THE WHOLE QUESTION OF THEIR COMPETITIVENESS. THE UK DEPARTMENT OF INDUSTRIES THROUGH THE SHIPBUILDING POLICY DIVISION CONTINUES READY TO PROVIDE FINANCIAL GUARANTEES TO COVER 70 TO 80 PERCENT OF THE COST OF TANKERS ORDERED FROM BRITISH YARDS. HOWEVER, TALKS WITH OFFICIALS OF THAT DIVISION REVEAL THAT THE GOVERNMENT ALREADY HAS PROBLEMS IN DISPOSING OF SEVERAL TANKERS CONSTRUCTED FOR MARITIME FRUIT CARRIERS (MFC) WHICH THAT FAILING COMPANY WILL BE UNABLE TO HANDLE. IT HAS ALREADY PROVIDED GUARANTEES ON 10.7 MILLION POUNDS OF A PROJECTED 16 MILLION POUNDS ON A TANKER OF 259,000 TONS, THE CARTSDYKE, UNDER CONSTRUCTION IN SCOTLAND AND MAY BE FORCED TO USE GOVERNMENT MONEY TO FINISH IT. IT HAS GIVEN GUARANTEES OF 14.8 MILLION POUNDS ON ANOTHER OF 140,000 TONS, THE TENMATE, WHICH IS READY FOR SEA TRIALS. THREE TANKERS OF 330,000 TONS EACH WERE ORDERED FROM THE HARLAND AND WOLF YARDS IN NORTHERN IRELAND. TWO HAVE BEEN SOLD OFF TO COASTAL OIL AND GAS, BUT THE THIRD REMAINS A PROBLEM FOR THE UK AND A DECISION EITHER TO GO OR NOT TO GO AHEAD WITH THE CONSTRUCTION WILL BE COSTLY. THE LOSSES ON TANKERS UNDERWRITTEN FOR MFC MAY BE ABOUT 10 MILLION POUNDS. IT SEEMS UNLIKELY THAT THE UK WILL SUPPORT ADDITIONAL TANKER CONSTRUCTION UNTIL THESE ARE DISPOSED OF.

2. ON THE SHIPPING SIDE, UK DEPARTMENT OF TRADE OFFICIALS STATE THAT THEY EXPECT THE USUAL COMMERCIAL FORCES TO HANDLE THE PROBLEM. IN THEIR VIEW, IT IS PRINCIPALLY A CONFIDENTIAL

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NORWEGIAN PROBLEM. THEY FAVOR COOPERATION AMONG GOVERNMENTS IN THE CONTEXT OF THE OECD MARITIME TRANSPORT COMMITTEE DISCUSSIONS. HOWEVER, THE UK APPEARS READY TO LET THE INTERNATIONAL MARITIME INDUSTRY FORUM (IMIF), UNDER THE CHAIRMANSHIP OF SIR JAMES DUNNETT OF THE GENERAL COUNCIL OF BRITISH SHIPPING, SEE WHAT IT CAN DEVELOP A CONSENSUS ON IN TERMS OF REMEDIAL ACTIONS. THE UK WOULD GIVE FAVORABLE

CONSIDERATION TO WHAT THE FORUM COULD AGREE UPON. THE
IMIF HAS BEEN TALKING IN TERMS OF A CARTEL ARRANGEMENT TO
INCLUDE THE OIL COMPANIES, THE SHIPYARDS, THE BANKS AND
THE TANKER OWNERS. US APPROVAL, PARTICULARLY BECAUSE OF
THE OIL COMPANIES, IS ESSENTIAL, AND THE IDEA APPEARS TO
RUN COUNTER TO US ANTI-TRUST LAWS.

ARMSTRONG

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